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Stepping on Cotton Route

BY BEPI PEZZULLI

In a diplomatic chess game to sway the scales towards resilient economic alliances, the UK-India Infrastructure Financing Bridge rediscovered this historical trade route and its pivotal role in shaping the societal development of regions along it. Today an alternative to China's New Silk Road, it endorses the transformative potential of global dynamics.

During his recent mission to India, Alderman Professor Michael R. Mainelli, the Lord Mayor of the City of London, may have orchestrated a breakthrough amid the stalled talks on a Free Trade Agreement (FTA) between London and New Delhi. Spearheading an endeavor that carries the potential to significantly reshape economic diplomacy, the Lord Mayor has embarked on a path that could usher in a new phase in the bilateral relations.

Detail from the Caravan on the Silk Road map 1375.

Against the backdrop of evolving global dynamics, the UK-India Infrastructure Financing Bridge represents a pragmatic alternative to an extensive free trade area, offering a blueprint for geopolitical cooperation. Championed by the City of London Corporation and the Niti Aayog, India's strategic planning agency, this program aspires to fulfill the promise of Global Britain, positioning the UK at the nexus of two special relationships: the historical one with the United States of America in the West and the new one with India in the East.

Challenges in Free Trade Talks. Negotiations for an FTA between the UK and India have encountered numerous stumbling blocks, impeding progress toward a swift closing. A notable point of contention revolves around visa liberalization, with India advocating for streamlined access to visas for its students and software professionals in the UK. However, the UK's reluctance to fully accommodate this demand stems from con-



The Scotch industry accounts for over 80% of India's food and beverage imports from the UK

cerns about immigration control, a sensitive topic in British politics. Additionally, India's protectionist tariff regime poses a significant barrier for UK exporters, particularly in industries such as the Scotch whisky sector, which faces adverse impacts from India's charges on imported goods. Intellectual property rights have emerged as another disputed issue, as India's thriving generic drugs industry conflicts with the UK's pursuit of enhanced patent protection for its life science sector. Furthermore, electoral politics in both countries have added complexity to the negotiations, with impending elections exerting pressure to secure politically advantageous terms.

The Financing Bridge circumvents the challenges inherent in negotiating an FTA, opting instead to replace the trade of goods with financial investments in infrastructure. This focus shift, as noted by Pierluigi Testa, President of Centro Studi Trinità dei Monti, a think tank specialized in British foreign policy, acknowledges the intrinsic obstacles associated with establishing free trade areas. "It is a well-known issue; pursuing frictionless trade always raises resistance either in terms of competition or in terms of migratory flood-

ing", Testa remarks.

The UK-India Infrastructure Financing Bridge. The inception of this new enterprise heralds a pragmatic alternative for deeper economic integration. Envisioned to attract global investments into India's burgeoning infrastructure sector, the initiative intends to bolster the appeal of infrastructure projects to international investors. Through streamlined due diligence processes, innovative financing mechanisms, and risk mitigation strategies, the Financing Bridge holds the promise of steering risk capital across critical sectors such as renewable energy, national highways, maritime ports, and railways.

At its core, the Financing Bridge rests upon two pillars: capital markets and pension funds. Recognizing the pivotal role of capital markets in driving economic development, the initiative seeks to enhance the attractiveness of the UK's dealing venues while facilitating overseas direct listings of securities in London for Indian companies. This realignment, complemented by recent regulatory reforms in India, underscores a concerted effort to broaden international capital flows into London's financial markets.



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Similarly, pension funds serve as significant contributors to capital markets, providing essential support to businesses and economies while nurturing long-term stability and growth. The UK's emphasis on reforming its pension sector and promoting a culture of long-term investment integrates smoothly with India's efforts to deepen cooperation in the pensions and insurance sectors. Building upon the UK-India Pensions and Insurance Partnership, announced by the Chancellor of the Exchequer, Jeremy R.S. Hunt, in September 2023, both nations aim to leverage expertise and facilitate bilateral investments, thereby laying the groundwork for sustained economic resilience and risk diversification across a wider range of asset classes.

The Financing Bridge serves the interests of both nations. In the heart of the UK's financial control room, there is a dual crisis in the making, which can pose a threat to the very foundation of British economic prosperity. Regulatory reforms have inadvertently produced a risk-averse environment within UK pensions and investments, stifling innovation and deterring long-term commitments. Industry voices such as UK Finance, the lobby for the banking and finance indus-

try, advocate for measures to reverse this decline, including ramping up pension contributions, streamlining regulations, and cultivating a culture of long-term investment. Likewise, professional bodies like the Institute of Chartered Accountants of England and Wales (ICAEW) propose radical initiatives such as consolidating pension schemes and transitioning public sector pensions to a funded model, in a quest to revitalize the sector.

While boosting the attractiveness of the UK's capital markets has become a top government priority, the significance of pension funds cannot be overstated. These funds play a crucial role in injecting wealth into various investment avenues, supporting businesses and economies, and fostering growth and stability. Without pension funds, capital markets would lack the necessary depth and liquidity, impeding development and hindering economic progress.

On the Indian front, efforts are underway to attract initial investments ranging from \$5-10 billion, setting a precedent for project financing. Despite London's considerable financial resources, many asset managers remain hesitant to invest in India due to in-

An Indian customer picks out generic medicines from a pharmacy in New Delhi.



UK-India Infrastructure Financing Bridge (UKIIFB) signing, New Delhi, September 12, 2023

formation asymmetries in infrastructure projects. Furthermore, India grapples with a shortfall in long-term capital inflow, despite the abundance of global resources available for investment. Initiatives like the National Investment and Infrastructure Fund Limited (NIIFL) have seen limited success thus far. It is hoped that the Financing Bridge will contribute to address these concerns.

Foreign Policy Implications. The Financing Bridge resonates with broader UK foreign policy objectives, particularly in reinforcing British influence in crucial regions such as the Middle East. Through the revitalization of historical trade routes and the augmentation of infrastructure connectivity between India and Gulf countries, the Financing Bridge endeavors to facilitate commercial and energy flows, positioning the UK as a central player in the region. This convergence of objectives underscores the transformative potential of economic diplomacy, offering a dynamic framework to reshape regional dynamics and spark sustainable growth.

Ambassador Sergio Vento spots a nuanced per-

spective, highlighting the multifaceted objectives of infrastructure investments. "This agreement on infrastructure investments carries a dual objective," he notes. "On one hand, it competes with the Asian Infrastructure Investment Bank (AIIB) promoted by China in 2016, to which European countries such as Germany, France, and the UK itself contributed capital at the time. On the other hand, it launches an alternative to China's New Silk Road, and a superior one at that: it accelerates India's transition away from entrenchment with the Global South and mitigates commercial conflicts."

Indeed, the Ambassador's observations hold weight on both fronts. Through the Financing Bridge, London endeavors to revive the historical Cotton Route, embarking on a grand infrastructure connectivity project that spans two directions. This ambitious undertaking pursues connections between India and Gulf countries, extending further to Israel, through a comprehensive network of railways and maritime ports. The envisioned project seeks to enhance commercial and



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energy flows from South Asia to the Persian Gulf and from the Persian Gulf to the Mediterranean, ultimately culminating in Europe. Both Saudi Arabia, the world's leading oil exporter, and the United Arab Emirates, the financial nucleus of the Middle East, have long sought to safeguard their commercial and energy routes from potential disruptions. The aftermath of the conflict in Gaza is validating these apprehensions. Since the onset of assaults by Yemen's Houthi rebels on vessels in the Red Sea in November, significant stakeholders in the shipping sector have temporarily suspended the utilization of Egypt's Suez Canal. This canal is a vital maritime passage linking the Mediterranean Sea to the Red Sea, serving as an indispensable conduit for energy and cargo transit between Asia and Europe.

The UK, armed with valuable resources, may mobilize significant private capital from the City of London to finance critical infrastructure projects in India, further bolstering its strategic positioning in a key geographic quadrant.

The Historical Cotton Route. An intricate web of an-

cient trade pathways, the historical Indian Cotton Route served as the lifeblood of commerce, connecting the Indian subcontinent with distant regions across Asia, Africa, and Europe. This expansive network facilitated the exchange of commodities, from cotton to exotic spices, luxurious silk, precious gemstones, and cultural ideas, leaving an indelible mark on the economic and cultural fabric of the ancient world. Stretching across vast distances, the Indian Cotton Route encompassed both overland and maritime passages navigated by enterprising traders.

Central to this bustling trade network was cotton, alongside an array of herbs including pepper, cinnamon, and cloves, tea, and other coveted goods that found eager markets in distant lands.

Beyond the exchange of material goods, the Indian Cotton Route facilitated profound cultural interchange among diverse civilizations. Traders, scholars, and travellers traversed its paths, exchanging ideas, languages, religions, and technological innovations. This rich tapestry of cultural diffusion played a pivotal role in shap-

UK pension funds are planning to increase their infrastructure investments in Britain.



British Prime Minister Rishi Sunak and India Prime Minister Narendra Modi

ing the societal development of regions along the route, with prominent trade centers such as Alexandria, Constantinople, Baghdad, Cairo, Calicut, Malacca, and Venice emerging as bustling hubs of commerce and cultural contamination, attracting merchants from far-flung corners of the globe.

Moreover, the Indian Cotton Route spurred remarkable advancements in navigation, shipbuilding, and transportation, propelling maritime trade to unprecedented heights. The development of sophisticated sailing vessels such as dhows, junks, and galleys facilitated the seamless traversal of long distances across the seas, further fuelling the exchange of goods and ideas.

The impact of the Indian Cotton Route reverberated across the civilizations it interconnected. It catalyzed the rise of flourishing trading empires, from the Maurya, Gupta, and Mughal dynasties in India to the Byzantine and Abbasid empires in the Middle East, shaping the contours of religious and cultural landscapes along its path. Moreover, the route played a pivotal role in the dissemination of major world religions including Buddhism, Hinduism, Islam, and

Christianity, contributing to the cultural diversity and pluralism of the lands it traversed.

Even during the era of the British Empire, the Indian Cotton Route retained its significance, albeit influenced by shifting trade routes and colonial policies. While British colonial rule introduced alterations to trade patterns, the Indian subcontinent remained a prominent producer and exporter of cotton. Despite these transformations, the enduring legacy of the Indian Cotton Route persisted as a vital artery of global commerce, emblematic of the enduring impact of trade and commerce on foreign policy.

Beyond Brexit. As the repercussions of Brexit undergo scrutiny for their enduring implications, shifting global dynamics, marked by geopolitical recalibrations, economic realignments, and societal unrest, unfold. This milieu is further compounded by recent developments in American governance and persistent international tensions. In this challenging environment, the construct of Global Britain emerges as a purposeful linchpin poised to consolidate foreign policy objectives, fortify stability, reinforce global governance, and safeguard national security interests. In



doing so, it holds the potential to temper the redistribution of economic influence from Western to Eastern spheres.

The UK-India Infrastructure Bridge Initiative thus showcases praiseworthy foresight in economic diplomacy. Departing from traditional free trade paradigms, it prioritizes the leveraging of financial investments in infrastructure, attempting a way forward for shared economic growth. Mark D. Wheatley, a Ward of Dowgate's elected representative in the City of London Common Council, lauds the novel approach, "The Lord Mayor's decisive actions exemplify how the City of London effectively leverages its connections to seek mutual benefits." Wheatley says, "Professor Mainelli's emphasis on the theme 'Connect to Prosper' serves as compelling evidence of this approach's effectiveness."

By unlocking the UK's capital markets to Indian securities, this initiative may not only rejuvenate the British economy but also spur much-needed reforms to pension fund schemes. This partnership promises new paths for growth and stability for both involved countries and establishes a significant model for global economic cooperation.

Additionally, the Financing Bridge takes a central position among foreign policy priorities, challenging the dominance of initiatives like the AIIB and providing a compelling alternative to China's Belt and Road Initiative (BRI). By revitalizing historical trade routes like the Cotton Route, it expedites India's transition away from the gravitational pull of the Global South while furnishing a security-oriented and commercially viable alternative to Chinese endeavors, thereby mitigating commercial conflicts along the way.

Central to this ambitious agenda is the reinvigoration of the Commonwealth, emblematic of Global Britain in action. As historical ties are being revisited, stakeholders bet on an interconnected future, inspired by a reassuring past.

Flags of the Commonwealth countries are paraded during a Commonwealth Day Service at Westminster Abbey in London on 12 March, 2023.

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